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INTERSTATE
DEPARTMENT STORES, INC.
NEW YORK, N. Y.

ANNUAL REPORT

YEAR ENDED
JANUARY 31, 1945

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

ROBERT S. ADLER	R. C. KRAMER
IRA J. COLEMAN	WILL I LEVY
REAGAN P. CONNALLY	HAROLD F. LINDER
CHRISTIAN E. DAHLGREN	FRANK J. MELEY
CHARLES E. FEDERMAN	WILLIAM ONASCH
PAOLINO GERLI	ALBERT PARKER

HAROLD J. SZOLD

OFFICERS

<i>President</i>	REAGAN P. CONNALLY
<i>Chairman of the Board</i>	R. C. KRAMER
<i>Vice President</i>	IRA J. COLEMAN
<i>Vice President</i>	WILLIAM ONASCH
<i>Vice President</i>	N. O. WASSON
<i>Treasurer</i>	FRANK J. MELEY
<i>Secretary</i>	ALBERT PARKER
<i>Assistant Treasurer</i>	M. GRANT BERENS
<i>Assistant Secretary</i>	ARTHUR STROM

<i>Transfer Agent</i>	BANK OF THE MANHATTAN COMPANY..	New York
<i>Registrar</i>	THE COMMERCIAL NATIONAL BANK AND TRUST COMPANY	New York
<i>General Counsel</i>	PARKER, CHAPIN AND FLATTAU.....	New York
<i>Public Accountants</i>	S. D. LEIDESDORF & Co.....	New York
<i>Executive and General Offices</i>	111 EIGHTH AVENUE.....	New York

TO THE STOCKHOLDERS OF
INTERSTATE DEPARTMENT STORES, INC.

APRIL 14, 1945

There are submitted herewith the Consolidated Financial Statements of the Company and its subsidiaries as at January 31, 1945, and for the fiscal year then ended.

The consolidated net profit for the fiscal year ended January 31, 1945 after Federal taxes on income amounted to \$1,018,355 compared with \$1,126,529 for last year.

The net profit was equivalent to \$3.30 per share on the Common Stock against earnings of \$3.20 on the same number of shares in the preceding year. In comparing these amounts it should be noted that the previous year's per share earnings were after dividends on the Company's Preferred Stock, which has since been retired, whereas this year's figure is after charging the interest on the outstanding Debentures as an expense.

The consolidated net profit before Federal taxes on income amounted to \$3,668,355 compared with \$4,336,529 for the preceding fiscal year. This reduction was due principally to a decrease in gross margin, an increase in inventory reserve, payment of interest on the Debentures and contribution to the Retirement Income Plan.

During the year, four dividends of 25¢ each, an aggregate of \$1.00, were paid on the common stock. The dividend declared payable on April 14, 1945 was in the amount of 35¢ per share.

Sales for the year ended January 31, 1945 were \$42,909,615 compared with \$41,545,205 for the previous fiscal year in the same number of stores.

As shown by the accompanying Consolidated Balance Sheet, the ratio of current assets to current liabilities as of January 31, 1945 was 3.82 to 1. The only long term indebtedness of the Company aggregates \$2,840,000 (of which \$160,000 appears as a Current Liability), which is the principal balance of the Debentures held by The Equitable Life Assurance Society of the United States due in equal installments over the next 13 years. The net working capital as of January 31, 1945 was \$7,588,125, compared with \$6,990,783 in the previous year.

Customers' accounts receivable, after reserves, were \$798,872 on January 31, 1945 as compared with \$867,885 on January 31, 1944, a decrease of \$69,013. These accounts are in good current condition and reserves have been set up which, in the opinion of the management, are adequate to provide for possible losses.

Very little building or remodeling work was done during the year due to wartime conditions. However, planning for improvements has continued and will be carried out when conditions permit.

Your Management has for some time been giving consideration to the possibility of installing a comprehensive retirement plan for our employees for it has been felt that such a program would prove to be mutually beneficial, would materially strengthen our ties with employees by rewarding faithful service and be an incentive for employees to remain with us. Moreover, the growing number of such programs among competing retailing organizations makes it more than desirable that Interstate be in a position to offer such an inducement to those whom we wish to have join our ranks as employees.

As of the close of the fiscal year ended January 31, 1945, we took what we hope is merely the first step in this direction by the creation of the "Interstate Department Stores, Inc. Retirement Income Plan." The normal retirement age under the Plan is 65 years. Eligible employees are those with two years of service whose earnings exceed \$3,000 per annum. Thus the Plan supplements social security benefits. The Company's contributions will amount to 5% of consolidated net earnings *before* deduction of Federal Income and Excess Profits Taxes but may not exceed 15% of the compensation of the eligible employees. In order that the operation of the Plan should not interfere with the Company's recent dividend policy, a further limitation was imposed on the amount of the contribution and it is provided that no contribution may be made which would in any year reduce consolidated net earnings, *after* taxes, to less than \$1.50 per share on the Common Stock. The Company has reserved the right to terminate or make changes in the Plan and this can be done as conditions and experience require.

One of the conditions to the effectiveness of the Plan, namely, that the Company receive a ruling from the Treasury Department that the Plan qualifies as a tax-free trust and thereby assure that the Company's contributions, including the initial contribution, which aggregated \$134,063, will be a deductible expense of operations for tax purposes, has already been satisfied.

Your Board of Directors did not wish to commit the Company to the Plan unless stockholders were agreeable and its effectiveness was therefore made subject to the approval of stockholders. Accordingly, consideration of the Plan has been included as one of the items of business at the forthcoming Annual Meeting. The principal provisions of the Plan are summarized in the Proxy Statement which accompanies the Annual Report and your attention is invited to that summary.

We think you will also be interested to know that considerable thought has been given to a program for training and re-employment of over 277 members of the armed forces. Efforts are being centered on this program to give our returning men and women every opportunity rapidly to adjust themselves and make up the time which they have given to their country.

Again, may we express our appreciation to our employees and officials for the helpful cooperation and loyalty they have continued to give during the year that has passed.

Yours very truly,

REAGAN P. CONNALLY,
President.

INTERSTATE DEPARTMENT AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	As at January 31, 1945		As at January 31, 1944	
CURRENT ASSETS:				
Cash on hand and in banks		\$ 4,248,691		\$ 2,746,705
U. S. Treasury Savings Notes—Series C (at cost) and accrued interest		94,905		195,597
Accounts Receivable:				
Customers	\$ 968,393		\$1,021,628	
Less: Reserves	169,521	798,872	153,743	867,885
	<hr/>		<hr/>	
Other	166,029		170,972	
Less: Reserve	3,500	162,529	3,500	167,472
	<hr/>		<hr/>	
Merchandise inventories—(Note A)		4,973,165		5,730,694
Total Current Assets		<hr/> 10,278,162		<hr/> 9,708,353
OTHER ASSETS:				
Post-war refund on Federal excess profits taxes	772,732		532,728	
Miscellaneous other assets, less reserves	56,030		44,448	
Due from officer—re: stock purchase agreement	—	828,762	60,000	637,176
	<hr/>		<hr/>	
FIXED ASSETS—At Cost:				
Alterations and improvements to leased premises	473,581		655,425	
Less: Reserve for depreciation	356,310		472,251	
	<hr/>		<hr/>	
	117,271		183,174	
	<hr/>		<hr/>	
Fixtures and equipment	1,362,354		1,308,152	
Less: Reserve for depreciation	637,132		571,252	
	<hr/>		<hr/>	
	725,222	842,493	736,900	920,074
	<hr/>		<hr/>	
LEASEHOLDS	272,029		272,029	
Less: Reserve for amortization	184,268	87,761	169,898	102,131
	<hr/>		<hr/>	
DEFERRED CHARGES		354,122		501,690
		<hr/> \$12,391,300		<hr/> \$11,869,424

The Notes to Financial Statements are an integral part of

MENT STORES, INC.

RY COMPANIES

HEET AS AT JANUARY 31, 1945

LIABILITIES

	As at January 31, 1945		As at January 31, 1944	
CURRENT LIABILITIES:				
Accounts payable—trade creditors (including liability for merchandise in transit)		\$ 1,420,270		\$ 1,569,745
Accrued salaries, interest and expenses		557,347		597,840
Accrued Federal taxes on income—(Note D)	\$2,959,783		\$3,561,303	
Less: U. S. Treasury Savings Notes—Series C	2,959,783	—	3,561,303	—
Accrued taxes—other—(Note D)		351,739		319,366
Sundry other liabilities		66,618		38,544
Dividend payable on Preferred Stock		—		32,075
Debenture Sinking Fund payment—due within one year		160,000		160,000
Contribution payable under Retirement Income Plan—(Note B) ..		134,063		—
Total Current Liabilities		2,690,037		2,717,570
3¾% Sinking Fund Debentures—due November 1, 1958—(Note C) ..	2,840,000		3,000,000	
Less: Sinking Fund payment—due within one year	160,000	2,680,000	160,000	2,840,000
Total Liabilities		5,370,037		5,557,570
CAPITAL STOCK AND SURPLUS—(Note C):				
Common Stock—Without Par Value:				
Authorized	320,000 shares			
Issued and outstanding	308,946 shares	1,580,252	1,580,252	
Capital Surplus—per Statement of Surplus		1,915,949	1,915,949	
Earned Surplus—per Statement of Surplus		3,525,062	7,021,263	2,815,653
		<u>\$12,391,300</u>	<u>\$11,869,424</u>	

this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED JANUARY 31, 1945

	For the Year Ended January 31, 1945	For the Year Ended January 31, 1944
NET SALES:		
Own departments	\$37,714,356	\$36,541,050
Leased departments	5,195,259	5,004,155
	<u>\$42,909,615</u>	<u>\$41,545,205</u>
COST OF SALES, OPERATING AND ADMINISTRATIVE EXPENSES	38,949,881	37,074,932
	<u>3,959,734</u>	<u>4,470,273</u>
LESS:		
Depreciation—alterations and improvements, fixtures and equipment	202,808	201,291
Amortization—leaseholds	14,370	14,370
	<u>217,178</u>	<u>215,661</u>
	3,742,556	4,254,612
OTHER INCOME—NET	79,140	105,093
	<u>3,821,696</u>	<u>4,359,705</u>
LESS:		
Interest paid	153,341	23,176
	<u>3,668,355</u>	<u>4,336,529</u>
NET PROFIT, BEFORE PROVISION FOR FEDERAL TAXES ON INCOME		
PROVISION FOR FEDERAL INCOME TAXES	490,000	380,000
PROVISION FOR FEDERAL EXCESS PROFITS TAXES, after deducting post-war credit of \$240,000 in 1945 and \$295,500 in 1944	2,160,000	2,659,500
PROVISION FOR PRIOR YEARS FEDERAL TAXES, ON INCOME, after deducting post-war credit of \$32,606	—	170,500
	<u>2,650,000</u>	<u>3,210,000</u>
NET PROFIT—per Statement of Surplus	<u>\$1,018,355</u>	<u>\$1,126,529</u>

CONSOLIDATED STATEMENT OF SURPLUS
FOR THE YEAR ENDED JANUARY 31, 1945

	For the Year Ended January 31, 1945	For the Year Ended January 31, 1944
EARNED SURPLUS—(Note C):		
Balance—beginning of period	\$2,815,653	\$2,096,329
ADD:		
Net profit for the year ended January 31, 1945-1944—per Statement of Profit and Loss	1,018,355	1,126,529
Transfer of appropriated surplus applicable to 7,100 shares of Common Stock sold during year	—	35,500
	<u>3,834,008</u>	<u>3,258,358</u>
LESS:		
Dividends paid on Preferred Stock—four quarterly dividends	—	\$132,319
Accrued dividend paid in connection with redemption of Preferred Stock	—	4,990
Dividends paid on Common Stock	308,946	305,396
	<u>308,946</u>	<u>442,705</u>
Balance—end of period—per Balance Sheet	<u>\$3,525,062</u>	<u>\$2,815,653</u>
APPROPRIATED SURPLUS:		
Balance—beginning of period		\$ 35,500
Transferred to earned surplus (see above)		35,500
		<u>—</u>
Balance—end of period—per Balance Sheet		<u>—</u>
CAPITAL SURPLUS—(Note C):		
Balance—beginning of period	\$1,915,949	\$2,071,588
ADD:		
Excess of selling price over adjusted cost value (equivalent to stated value) of 7,100 shares of Common Stock sold during the period	—	35,500
	<u>1,915,949</u>	<u>2,107,088</u>
LESS:		
Premium on 815 shares of 7% Preferred Stock purchased for redemption during the period	—	7,849
Premium of \$10.00 per share paid in connection with redemption of 18,329 shares of 7% Preferred Stock...	—	183,290
	<u>—</u>	<u>191,139</u>
Balance—end of period—per Balance Sheet	<u>\$1,915,949</u>	<u>\$1,915,949</u>

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS
AS AT JANUARY 31, 1945

NOTE A—Merchandise inventories, as at January 31, 1945, which include merchandise in transit, in the amount of \$348,183.27, are stated on the following bases which are consistent with those used in the preceding year:

At Stores— At the lower of cost, or market, as calculated by the retail method of inventory valuation, after provision for mark downs based on age of merchandise.

At Warehouses—At the lower of cost (substantially on the "First in, First out", basis) or replacement market.

In Transit— At specific invoice cost.

NOTE B—The contribution payable under the Retirement Income Plan has been deducted in computing the provision for Federal taxes on income. The Plan is subject to stockholders' and Governmental approval, which, if not obtained, will result in the termination of the Plan and the return of the contribution to the Company and its subsidiaries.

NOTE C—The Indenture pursuant to which the 3¾% Sinking Fund Debentures, due November 1, 1958, were issued contains certain restrictions on the right of the Company to declare dividends (other than stock dividends). As at January 31, 1945 approximately \$965,000 of the Company's surplus was not subject to such restrictions. The said amount will be increased or decreased primarily to the extent that future consolidated net income (as defined in the Indenture) is in excess of or less than future dividend distributions.

On October 31 of each year payments of \$160,000 are required to be made into the Sinking Fund.

NOTE D—The financial statements are subject to the final determination of Federal, state and other taxes.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERSTATE DEPARTMENT STORES, INC.,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1945 and the consolidated statements of profit and loss and surplus for the year then ended; have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination of the merchandise inventories included a general review of the inventory procedures and records, including the retail inventory records, and tests to determine the mathematical accuracy of the inventory schedules. In addition, our representatives were present at the Company's principal warehouse as well as at certain stores, which we considered to be representative and which we selected for test purposes, to determine that the inventory procedures were carried out effectively and to make tests of the quantities in the inventory. We also communicated directly with vendors who are holding Company's merchandise pending delivery instructions from the Company. Our examination of the customers' accounts receivable included tests by direct communication with a selected number of customers at stores selected by us.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, together with the Notes to Financial Statements, present fairly the consolidated position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1945, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.

New York, N. Y.
March 27, 1945.

INTERSTATE DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

AS AT JANUARY 31, 1945

The accompanying financial statements were prepared on the basis of the accounting records of the Company and its subsidiaries, which are maintained on the basis of the accrual method of accounting. The financial statements have been audited by the independent accountants, Messrs. [Name], who are members of the Institute of Certified Public Accountants, and their report thereon is set forth on the last page of these financial statements. The financial statements have been prepared on the basis of the accounting records of the Company and its subsidiaries, which are maintained on the basis of the accrual method of accounting. The financial statements have been audited by the independent accountants, Messrs. [Name], who are members of the Institute of Certified Public Accountants, and their report thereon is set forth on the last page of these financial statements.

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.

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W. D. [Name] & Co.

New York, N. Y.
March 27, 1945